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AMERICAN BANKER

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Choice of Ryan Brings OTS Fate Into Question

By ROBERT M. GARSSON

WASHINGTON — In nominating T. Timothy Ryan to be director of the Office of Thrift Supervision, President Bush may have been looking for a dependable caretaker of an agency not destined for a long life.

A Washington lawyer with ties to four Republican administrations, including the current one, Mr. Ryan has little background in financial services.

But he is regarded as a strong manager, someone who could keep the OTS out of political trouble until next year, when the administration and Congress are expected to decide if they want to abolish the agency, as is being proposed in some quarters.

ANALYSIS: *Follow-up on the news*

"I think that's where they're headed," said Kenneth Guenther, executive vice president of the Independent Bankers Association of America, alluding to the caretaker theory.

Mr. Guenther said it is likely Congress will consider legislation next year to abolish the OTS. The agency was created last year by the Financial Institutions Reform, Recovery, and Enforcement Act to take over the regulatory functions of the Federal Home Loan Bank Board.

News that Mr. Ryan would be tapped to succeed M. Danny Wall came only days after the administration announced that Treasury official Salvatore Martoche would serve as interim director. The quick reversal is raising questions on Capitol Hill about the administration's attitude toward the thrift agency, which is part of the Treasury Department.

No Rubber Stamp

One Senate Banking Committee staff member indicated that Mr. Ryan will face sharp questioning at his confirmation hearing.

"People are going to want to know why he is the most qualified person, why it has taken so long to find someone, why a partisan person for a job that cries out for nonpartisanship," this staffer said. "And they are going to want to know what the administration's long-term intentions toward the OTS are."

Richard Peterson, a senior aide to Rep. Doug Barnard, D-Ga., described the succession of appointments to the OTS director's post as a "triple shuffle" that reflected confusion in the White House.

See **RYAN** *page* **6**

INSIDE NEWS

FINANCE

THE BIGGEST U.S. BANKS are turning to new sources of short-term funding, particularly the Eurodollar deposit market. *Page 16*

CONSUMER

ELECTRONIC REFUNDS have encountered rough waters. The IRS misplaced some computer tapes last month, and H&R Block Inc. faces a class-action suit over how soon refunds are made. *Page 8*

TECHNOLOGY

AN IMAGE PROCESSING system that uses standard personal computers is being tried by two banks, one in Britain and the other in Pennsylvania. *Page 3*

INTERNATIONAL

BRITAIN is pushing hard to have London declared the home of the European Bank for Reconstruction and Development and of the proposed European central bank. *Page 13*

PEOPLE

LAWRENCE K. FISH will indeed be chairman and chief executive officer of the Bank of New England Corp. and its principal subsidiary, the holding company has announced. *Page 2*

WASHINGTON

THE MONEY that flowed from thrifts to political action committees has dropped off sharply. The same is true of contributions from Wall Street firms. *Page 10*

COMMENT

THE KEY TO QUALITY service is the way employees treat other employees, writes Paul S. Nadler. *Page 4*

INDEX

Company Index	2
Executive Changes	7
Classified Advertising	12
Bank and Thrift Stocks	15

Home Loan Bank Floats Plan To Bypass '1 Borrower' Cap

By BARBARA A. REHM

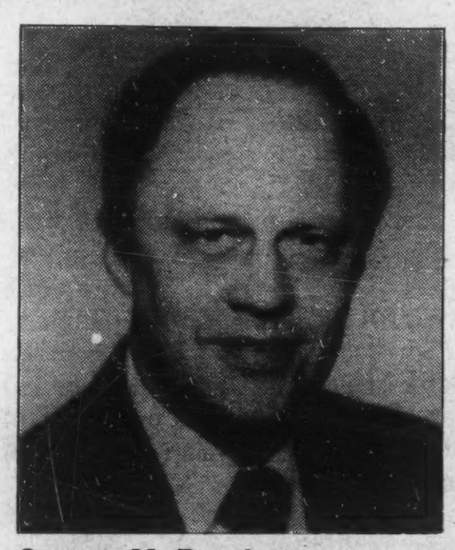
WASHINGTON — The Federal Home Loan Bank of Dallas is floating a solution to one of the thrift industry's thorniest problems – the limits placed on the amount of loans an institution can make to any one borrower.

The Dallas bank wants to syndicate, and take an ownership position in, the portion of thrift loans that exceed the lending limits, according to an outline of the plan obtained by the *American Banker.*

Thrifts are under much tighter lending restraints since last summer's bailout law forced them to adhere to the limits on national banks. Whereas thrifts used to be permitted to lend up to 100% of capital to any one borrower, they are now capped at 15% of capital or $500,000, whichever is higher.

Profitable Loans Barred

The "loans to one borrower" issue has become a rallying point for healthy S&Ls and some of their borrowers, mainly home builders, who argue that the bailout law is having the perverse effect of barring thrifts from making profitable loans to creditworthy customers. The loans most affected by the lending limits are residential construction and development loans.



George M. Barclay
Dallas Home Loan Bank

Under the Dallas bank's proposal, being circulated in Washington and among Home Loan bank presidents, a bank would take 10% of loan amounts exceeding the caps as an investment and sell the remainder to other financial institutions.

As an incentive to purchasers, the Dallas bank would put a letter of credit behind the syndicated loans, which would limit buyers' risk in the event the loan is not repaid.

For example, if a thrift made a $1 million loan and kept just $250,000, the Dallas bank would

See **DALLAS** *page* **11**

RTC Reduces Cash Needed To Acquire S&L Assets

By ROBERT TRIGAUX

WASHINGTON — In the latest of a series of moves to spur sales of thrift assets seized by the government, the Resolution Trust Corp. Oversight Board Friday reduced the down payment required on real estate transactions.

The reduction, to 15% from 25%, should invigorate flagging interest in sales of real estate – including hotels, houses, and apartment buildings – from 337 insolvent thrifts in government conservatorships.

In a similar attempt to boost sales, the board late last month said the RTC could allow buyers of assets to return any unwanted portion for up to a year. The initial warranty period had been six months.

Capital Infusions Weighed

Under informal consideration is an "open thrift assistance" plan to allow the RTC to infuse undercapitalized thrifts still in operation with government funds in the hope of selling them

See **RTC** *page* **14**

Banks Lobbying To Ease Rule On Check Holds

By KAREN GULLO

NEW YORK — Regulation CC, the controversial rule limiting the holds that banks place on deposited checks, is again prompting intense lobbying by banking trade groups.

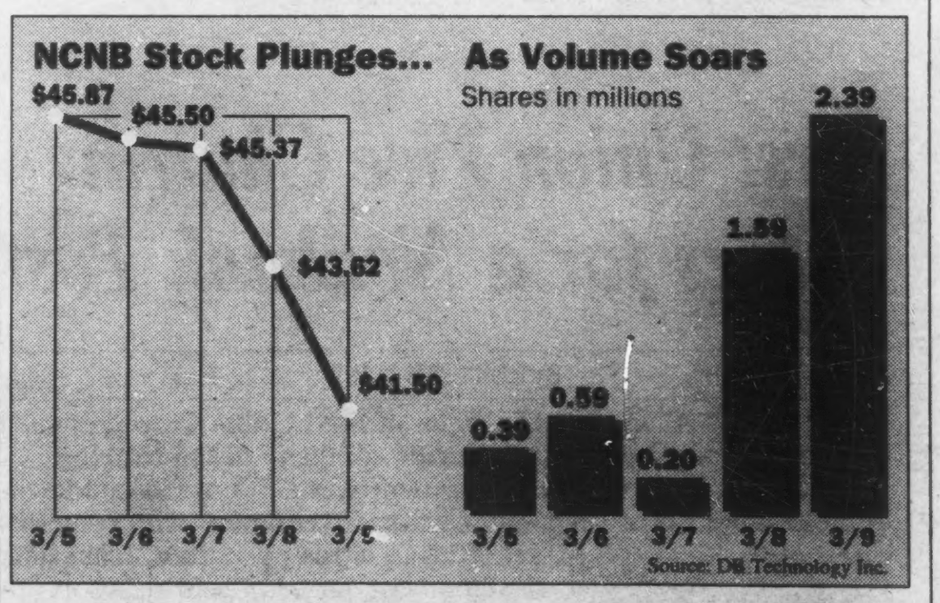
The lobbyists are seeking changes in the rule to allow deposits in automated teller machines to be treated differently than conventional deposits. Bankers want to be able to delay payment on certain interbank ATM deposits, allowing more time to make sure they are backed by sufficient funds.

Bankers Limit Their Target

In focusing on the ATM provisions, the bankers are pursuing a much more limited agenda than they did in an all-out effort two years ago to oppose most aspects of the rule, which was mandated by the Expedited Funds Availability Act of 1987.

Unlike in the earlier battle, the banking groups have the Federal Reserve Board – the agency charged with enforcing the law – on their side in asking

See **CHANGES** *page* **3**



NCNB Shares Battered 2d Day In Reaction to Loan-Loss News

By NORA GREEN
and KENNETH CLINE

Shares of NCNB Corp., a market favorite for much of last year, fell sharply in extremely heavy trading for the second consecutive day on Friday. The decline was triggered by the company's announcement Thursday that its problem loans could rise by 25% in the first quarter.

By Friday's close, shares of the Charlotte, N.C., banking company were trading at $41.50, down $2.125. More than 2.1 million shares had changed hands, almost seven times its normal trading volume.

During the last month, NCNB had been staging a mild rally, but the two-day drop brought its shares close to its Jan. 30 low of $40.875. NCNB traded at $52.50 on Sept. 29, before bank stocks began their slide.

On Thursday, management told securities analysts about the expected increase in problem loans and $180 million of unrealized bond-portfolio losses. NCNB's stock fell $1.75 in heavy trading as Merrill Lynch & Co. and Sanford C. Bernstein & Co. slashed earnings estimates

See **NCNB** *back page*

COMMENT / By Paul S. Nadler

Indicator of Service Quality: How Workers Treat Each Other

Bankers generally agree that the public wants quality service rather than top rate or lowest cost in a banking relationship.

In this regard, I always quote the comment attributed to John Glenn, the astronaut, when asked what it was like in that space capsule: "All I could think was that there were 852 moving parts, each of which was built by the low-cost bidder."

I have refined this to Nadler's Law No. 2: "You can't pay the customer top dollar and give him kisses, too, and he'd much prefer the kisses."

The Personal Touch

The customer is more interested in a bank that corrects errors quickly, that makes speedy decisions on loan requests, and that knows you personally than in a bank with top savings rates or lowest loan and service charges.

"Quality of service" has become a somewhat trite term. Everyone uses it. But what does it mean, beyond correcting errors swiftly, making quick decisions, and knowing the customer personally?

Addressing the Minnesota Bankers Association's latest Senior Bank Management Conference, Phillip Hudson, executive vice president of First Security Bank, Salt Lake City, spelled out the quality issue in far more specific terms than usual.

Mr. Hudson made the following points:

• A bank must provide a statement that is simple for the customer to understand. I remember the Chemung Canal Bank of Elmira, N.Y., which reported that people would rather pay a higher service charge, in the form of a lump sum subtracted montly from their accounts, than lower charges that are complicated and make it hard to balance the statement.

• Employees must be well informed. If employees don't know the bank's services, how can the public be expected to learn about them? Here, Mr. Hudson suggested sharing good results with the staff. If their perceptions of the bank are not tops, how can they give the public a tip-top impression? And such impressions are the keys to public satisfaction.

• People want the attention of the banker they are facing. If the manager who is handling your business waves at everyone who walks by, you feel slighted. If the tellers talk among each other while you are at the teller's window, you feel ignored. "Any customer not being served is your

customer if you are not busy with someone else," Mr. Hudson summed up.

But the key to quality service, as the Minnesota bankers were told, is the way employees treat other employees. For if staff members are treated poorly, they will not treat customers well. Service centers must treat the branches as though they are outside customers.

As I was addressing an awards dinner at BankAtlantic in Fort Lauderdale, Fla., on the topic of bank service and morale, the only spontaneous applause arose when I said each bank division should treat queries from other divisions with the same respect afforded customer queries.

Interaction with the Public

How can a bank go about developing quality service? Mr. Hudson's answer was simple: "Training is expensive, but ignorance costs more."

But in addition to training employees, management must find out for itself how well employees are handling the public.

• Call a branch and see how the call is handled. This can let managers find whether people identify themselves, are knowledgeable, and act as if they care.

• Check on vendors who work directly with the public. How is a request for checks handled by the printing company? Are coupons intelligible? Check landscaping, bank cleanliness. A poor janitorial service can hurt the bank as much as a sloppy statement.

• What is the response when people close accounts? Here is your opportunity to find out which bank operations and policies makes people unhappy.

In this regard, I have closed accounts – including five at one bank in one day – without ever getting a survey letter or telephoned query.

Customers Getting Even

Stew Leonard, the grocer mentioned in the book "Excellence," says that when people get mad, they just stop shopping with you. You have no way to find out what made them mad. Bankers have the opportunity to investigate and correct the things that caused the defection. Yet few use this opportunity.

Mr. Hudson defines "quality of service" as "meeting customer expectations." And perceptions in this regard are as important as performance.

But just as advertising a bank's stature can impress the staff as well as the public, if a bank wants to generate a perception of quality service, it must start by rewarding performance, giving good training, and generating "quality" internally. □

Mr. Nadler is a contributing editor and professor of finance at Rutgers University's Graduate School of Management.

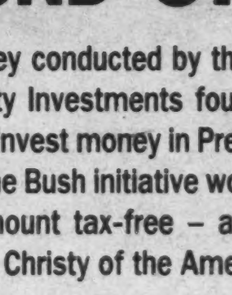
"SOUND OFF"

A recent survey conducted by the Gallup Organization and commissioned by Fidelity Investments found that 34% of eligible consumers said they would invest money in President Bush's proposed Family Savings Account. The Bush initiative would allow families and individuals to invest a set amount tax-free – a potential windfall for the nation's banks. Suzanne Christy of the American Banker features staff, asked:

Q How will you take advantage of the Family Savings Account if it becomes a reality?

■ Joan Greitzer
Vice president, product design
Society National Bank, Cleveland

I was encouraged by the results of the Gallup survey. We've viewed the Family Savings Account as a wonderful opportunity ever since it was proposed.



We have a couple of products we've been working on in the last few months. They should fit well with some of our existing package-type accounts that combine credit and deposit needs. We are also looking at altering some of our time deposit accounts.

The first two groups we would target this type of account to would probably be the general mass market and the emerging affluent, as well as a portion of our upscale market. It all depends on what point in the family cycle the consumer is; is he or she planning for education or retirement or home purchases?

This is all highly theoretical, of course. It depends on what kind of regulatory restrictions are placed on the accounts and what kind of reporting will be required of banks and consumers.

■ Russell S. Hoadley
Vice president
Barnett Banks Inc., Jacksonville, Fla.

We are very definitely interested in offering such a product – if permitted. We are watching what Congress is doing. A savings plan like this could be a source of stable deposits in the future.

We don't have any plans under way yet. But we could turn around a new product fairly quickly – our technology, marketing, and distribution structure is in place – if and when we know what the legislation will look like.

One of the issues we are looking at is if this account would really increase savings, as the President intends. Or would it simply create a transfer of funds from different accounts? Our sense is that, as we see the baby boom bulge moving into middle age, there is going to be a strong natural inclination to save.

■ Joseph T. Grause Jr.
Senior vice president
Fidelity Investments Institutional Services Co., Boston

The results from the survey, which Fidelity Investments commissioned, were not surprising. If people are given the opportunity to put money away in a tax-free way, they will. Right now, the tax laws incite people to borrow money, not save.

As a vendor of services to the banking industry – we help them market, manage, and sell Fidelity mutual funds – the Family Savings Account will be a boon. The banking industry is in a unique position to capture an increased share of both deposit and security-type products. Our perspective would be helping them merge those deposits with longer-term instruments like mutual funds.

While we don't have any plans to launch any whiz-bang new fund or service, we would spend more promotional dollars to help banks market existing funds under an IRA-type program.

Just look at history. In the early '80s, when restrictions on tax-free IRAs were less stringent, there was a great burst of mutual fund sales. Given the popularity of mutual funds and CDs last time around, we'd put our energy there.

Six years ago, we were aggressive in the market, and if legislation is passed, we'd be there again.

■ Nancy Eberhardt
Vice president, retail products
Central Fidelity Bank, Richmond

We are looking at a number of different scenarios to see what it would take to make a Family Savings Account profitable. I think we have a very big market that would be interested in some kind of long-term savings vehicle. While now they tend to be big credit users, they will be incited to save when they realize the tax benefits.

The product can probably be structured like a savings account, almost like a CD. Each would have a unique term. It all depends on the disclosure rules. There are a whole lot of alternatives. It also can look a lot like an IRA. But it will probably look most like a CD.

I don't think a Family Savings Account type of product will pull money away from other products. For example, even after we offered money market accounts, we still kept a strong base of people who wanted our traditional savings product. □

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Wall Street and Thrift Industry Reduce PAC Contributions

By AMY SUZANNE KING

WASHINGTON — Cash that only a few years ago flowed freely from several sectors of the financial world into the coffers of political action committees has slowed to a trickle, according to data released by the Federal Election Commission.

With the dwindling numbers of savings and loan institutions and rampant cost-cutting on Wall Street, the decline in political contributions from these areas is not surprising, according to industry spokesmen.

Decline at U.S. League

Contributions to the campaign fund of the U.S. League of Savings Institutions, for example, decreased nearly 30% – about $92,000 – during the last two-year election cycle, ended in 1989.

But shrinking numbers of savings institutions are not the only reason for the reduction in receipts, according to James Grohl, a spokesman for the U.S. League of Savings Institutions.

An increase in the number of statewide and single-institution PACs means that political contributions have become less centralized, reducing the direct clout of the U.S. League. Consequently, the national fund has suffered a decline, Mr. Grohl said.

"Maybe the myth that we grease Congress with tens of thousands of dollars will be dispelled by this recent study," Mr. Grohl said.

Among the top 50 political action committees in the election commission's report, the American Bankers Association's BankPac showed the greatest increase in receipts since 1987. Disbursements increased by nearly $150,000 during the two-year cycle. In 1989, the PAC reported almost $800,000 in political contributions.

Decline Felt on Wall Street

The downward trend in financial PAC contributions carried over to many Wall Street firms.

The Better Government Committee of the New York brokerage firm of Smith Barney, Harris Upham & Co. showed a decrease in both receipts and disbursements. Receipts dropped nearly 70%, and disbursements declined about 65% between 1987 and 1989.

Much of the decrease in contributions to political campaigns, as documented by the commission, can be attributed to the fact that 1989 is not an election year. But the decline in receipts from Wall Street is probably due to recent uncertainty and instability in the financial markets, according to Henry Harris, treasurer of the Smith Barney PAC.

"Receipts are all through voluntary contributions," said a spokesman for Smith Barney. "I would guess that people feeling the pinch won't contribute – it's leaner and meaner."

Mr. Harris confirmed this analysis by adding: "Levels of trading activity are down, and consequently people don't feel as ebullient. That reflects on voluntary contributions."

Another Wall Street firm, Morgan Stanley & Co., argues that its PAC is as strong as ever. Despite a record year in earnings, contributions to the Morgan Stanley PAC decreased.

"The decline is a result of political activity as opposed to financial status. It's not an election year," said Peter Roche a spokesman for the company.

One of the powerhouse PACs, organized by the National Association of Realtors, also showed a decline in both receipts and disbursements during the last two-year election cycle, according to the election commission's report.

But with receipts totaling more than $2.7 million, the PAC for real estate agents was far and away the top financial services money earner.

The nearly $450,000 decline in receipts from 1987 to 1989 is probably a result of reduced contributions from states suffering real estate market slumps, according to Norman Flynn, president of the National Association of Realtors.

Who Gets the Money

The decrease in disbursements is a result not only of a nonelection year but also of changes in the way the group determines how to disburse the funds.

"Too often we were straddling the fence and contributing to both candidates," Mr. Flynn said. "As a result, we have and will be making fewer dual campaign contributions."

Ms. King writes for the Medill News Service.

Among the Top 50 Financial PACs in 1989...

Who collected the most

National Association of Realtors	$2,700,000
National Association of Life Underwriters	$1,200,000
American Institute of CPAs	$900,200
American Bankers Association	$796,727

Who spent the most

National Association of Realtors	$1,200,000
National Association of Life Underwriters	$890,291
American Institute of CPAs	$870,217
American Bankers Association	$838,993

Whose receipts declined the most

	1989	1987
National Association of Realtors	$2,700,000	$3,200,000
Salomon Brothers Inc.	$133,800	$249,900
U.S. League of Savings Institutions	$237,336	$329,814
Smith Barney	$42,080	$133,066

Whose spending fell the most

	1989	1987
Virginia Bankers Association	$39,025	$153,900
Salomon Brothers Inc.	$140,850	$233,613
Smith Barney	$44,988	$125,286
Morgan Stanley & Co.	$150,567	$230,294
Citizens and Southern Corp.	$50,700	$106,275

Source: Federal Election Commission

THE WEEK *ahead*

MONDAY, MARCH 12

The Supreme Court and the Senate are in recess until next Monday.

Senate Minority Leader Robert Dole, R-Kan., addresses credit union executives as the National Association of Federal Credit Unions kicks off its 1990 congressional caucus. On Wednesday, the group will hear from M. Danny Wall, who stepped down last week as director of the Office of Thrift Supervision. 202-646-4416.

TUESDAY, MARCH 13

Retail sales figures for February are released by the Commerce Department.

WEDNESDAY, MARCH 14

The Federal Deposit Insurance Corp. holds a rare public hearing on its proposal to eliminate pass-through deposit insurance coverage by thrifts to so-called 457 plans, employee benefit programs affecting workers in state and local governments. 202-898-6993.

The House Banking subcommittee on financial institutions begins a series of oversight hearings on the Financial Institutions Reform, Recovery, and Enforcement Act. Abolishing the Office of Thrift Supervision will be among items considered. 202-226-3280.

The Federal Reserve Board releases the "beige book" in which the Fed staff makes assesses the prospects for the economy that the Federal Open Market Committee will use in deciding whether to change the Fed's conduct of monetary policy. Fed watchers do not expect any easing by the Fed in the near future. 202-452-3000.

The FDIC meets to discuss the priority for bids on failing banks, and entrance and exit fees for deposit insurance funds. 202-898-3813.

The Resolution Trust Corp. meets to consider guidelines for disposing of real estate. 202-898-3604.

The House Banking subcommittee on consumer affairs and coinage votes on bills to strike two medals. 202-225-4247.

Business inventories and sales figures for January are announced by the Commerce Department.

THURSDAY, MARCH 15

The House Banking Committee continues oversight hearings on last year's thrift-bailout law.

FRIDAY, MARCH 16

Housing starts and building-permit figures for February are released by the Commerce Department. □

INSIDE *the agencies*

Credit Union Regulator Touts Insurance Fund

In the wake of criticism concerning its insurance fund, the National Credit Union Administration has released a detailed study touting the strengths of its system – a system it says could provide a blueprint for streamlining the banking industry's insurance fund.

The credit union regulator was instructed to prepare the study for the Treasury Department under the Financial Institutions Reform, Recovery, and Enforcement Act passed last summer by Congress.

Responding to Critics

"There is much misinformation about the insurance fund. I hope that it will be a document that will answer all of the questions raised," said Elizabeth Burkhart, vice chairman of the credit union administration.

Prepared by two NCUA executives, the study states that the National Credit Union Share Insurance Fund is much stronger than the funds set up to protect bank and thrift depositors.

$2 Billion Fund

The study notes that the $2 billion fund could withstand a catastrophic loss without passing the cost along to taxpayers because, to raise additional money, credit unions would kick 1% of their insured deposits into the fund. The study made a number of other points:

- The fund should not be separated from the regulator because the insurer couldn't place enough "financial discipline" on the market.
- Credit unions are less risky than banks because nearly half of their portfolios are in consumer loans.
- Credit unions will move into the 1990s with higher capital levels and lower losses.

Sowing for the Future. NCUA officials are planting the seed of a credit union movement in Eastern Europe. A delegation from Poland's Solidarity union met with administration officials last week for a first-hand lesson on the insurance fund and examination techniques.

The concept of a financial institution owned and controlled by citizens is appealing to Poland because the country has largely lost confidence in its centralized banking system.

Mrs. Burkhart of the NCUA spent part of a day with three members of the delegation, including Andrzej Krajewski, an adviser to Poland's vice minister of finance.

The groups discussed the credit union administration's structure, how the board operates, and why it is made up of people from two political parties. Members of the delegation also wanted to know how regulations are made and how disagreements between credit unions and examiners are resolved.

Said Mrs. Burkhart, "You learn a lot from what people ask. There were so many questions."

Waiting for a Ring. Robert M. Fenner, general counsel for NCUA, might want to compare notes with the Maytag repairman who spends much of his time waiting for the phone to ring. The regulator plans to install a fraud hot line by month's end for people to call if they suspect fraudulent activities in credit unions.

"We are hoping that it will help us uncover those occasional incidences of fraud in credit unions," Mr. Fenner said. "The incidences are very small, but they can be very expensive."

He pointed out that the two largest losses suffered by the insurer in the past decade resulted from fraud and have cost the insurer $65 million.

If a tip comes in, the matter is referred to the regional office and the examiners begin an investigation.

Mr. Fenner, however, won't suffer from ennui. "We will be doing lots of others things while we wait," he said.

The hot line is 202-682-9699 for calls in the Washington area and 800-827-9650 for long-distance calls.

— Bill Atkinson

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